Boston Common Asset Management

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International Equities at a Structural Inflection Point

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The past decade entrenched a narrative of American exceptionalism in equity markets. U.S. stocks, led by a cadre of mega-cap technology firms, aggressive monetary stimulus, and a 16-year secular bull run in the U.S. Dollar, outperformed non-U.S. counterparts in 13 of the 17 calendar years since 2008. This stretch all but cemented the widespread assumption that American markets always offer superior growth and resilience. Today, however, profound shifts in policy, valuations, and global economic drivers signal a market rotation is underway.

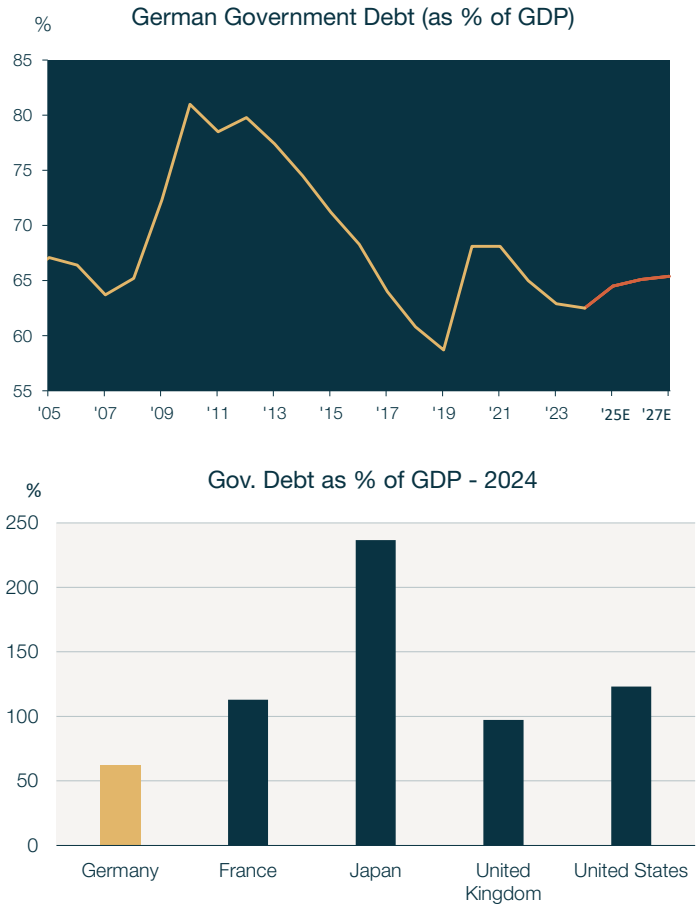
Investors familiar with modern portfolio theory will recall that diversification is the one free lunch in finance. The extraordinary outperformance of U.S. equities since 2008 was preceded by a decade (the 2000s) in which international and emerging market equities led the way. After an unprecedented stretch of U.S. dominance, the wheel may finally be turning yet again. From Europe to Japan, corporations look poised to benefit from improved domestic growth and global secular opportunities, and international equities are ascending as a surprising safe haven amidst market volatility. Indeed, an international equity allocation—long relegated to the sidelines—deserves a fresh, strategic appraisal given the structural and macroeconomic turning points reorienting the global investment landscape.

Policy Turnaround: Unity and Expansion in Europe

One development fueling the case for international equities is the historic policy shift now unfolding among major economies. In the face of disruptions to global order, Europe is taking decisive action to increase cohesion, improve its economic outlook, and redevelop independent defense capabilities. The continent responded to Russia's invasion of Ukraine with new military alliances (Sweden and Finland joined NATO), coordinated sanctions, and reduced dependence on Russian commodities. In the same fashion, U.S. tariffs could foster greater intra-European trade.

Europe, led by Germany, has also launched an ambitious pivot toward fiscal expansion. After years of fiscal austerity, German lawmakers passed a constitutional amendment to modify the country's strict "debt brake" that has handcuffed public spending over the past 15 years and restricted government debt to less than half the average level of comparably large countries. The country is also creating a €500 billion ($545 billion) infrastructure fund dedicated to sustainable transport, modernized grids, and affordable housing. Notably, **one-fifth of the investments will target climate-related initiatives**, including renewable power generation and energy efficiency upgrades. This landmark plan, described by its architects as a "game-changer", will enable extra defense spending and investments equivalent to 2.6% of GDP annually for 12 years. Following the plan's announcement, The newly elected Chancellor Friedrich Merz declared to reporters, "Germany is back."[1]

Figure 1. German Structural Reform - Increased Investment & Spending



As of March 31st, 2025

Source: Factset (Eurostate, Deutsche Bundesbank, European Central Bank, Office for National Statistics UK, US Department of Treasury, Factset Estimates)

Such a dramatic fiscal shift signals a broader European embrace of Keynesian vigor and strategic autonomy. It follows on the heels of the EU's NextGeneration recovery fund and the Green Deal Industrial Plan, which together marshal public and private capital toward energy transition, digitalization, and supply-chain resilience. Europe's policy makers are thus writing a new playbook, one that treats **investment in future industries as a matter of economic sovereignty and long-term competitiveness**, even at the expense of higher debt.

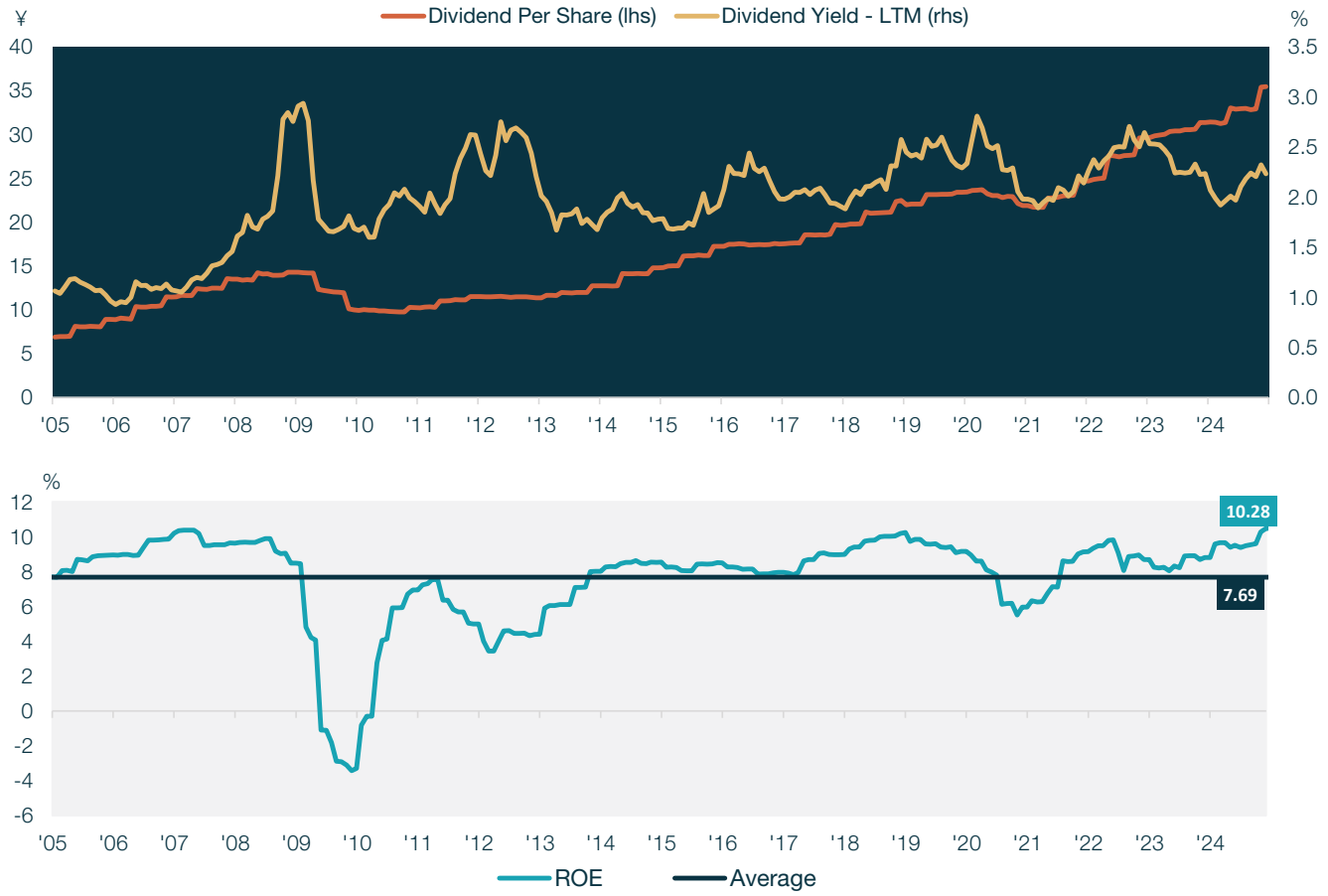
[1] Germany's Merz secures breakthrough on gargantuan spending plan | POLITICO, March 2025.

Corporate Governance Renaissance in Japan

Japan, too, stands at the cusp of a macroeconomic sea change with important implications for equity investors. After thirty years of deflationary drift, Japan's economy is finally showing signs of sustained reflation. Core consumer prices and wages have been rising, pushing the Bank of Japan to begin normalizing its ultra-easy monetary stance. Even if gradual, the end of zero interest rates in Tokyo marks a regime shift not only for bond markets but also for corporate behavior. Critically, Japan's corporate sector is undergoing sweeping reforms in governance and capital management—an evolution many thought improbable.

Under pressure from Prime Ministers, investors, and regulators, Japanese companies have begun unlocking value for shareholders. The cultural mindset that once favored stability is shifting to prioritize profitability and growth. In response, Japanese corporate payouts have increased dramatically: over the past five years, annual dividends per share have grown by 50%, and share buybacks, historically rare, have more than doubled. In addition, managements have invested in growth areas, divested weaker business units, sold cross-shareholdings, and controlled costs, leading to substantial improvements in profitability.[2] Returns on Equity have increased to a historical high of 10.3%, well above Japan's 20-year average of 7.7%. It is important to note that Japan still lags behind global peers, suggesting there is even more room for advancement.

Figure 2. MSCI Japan

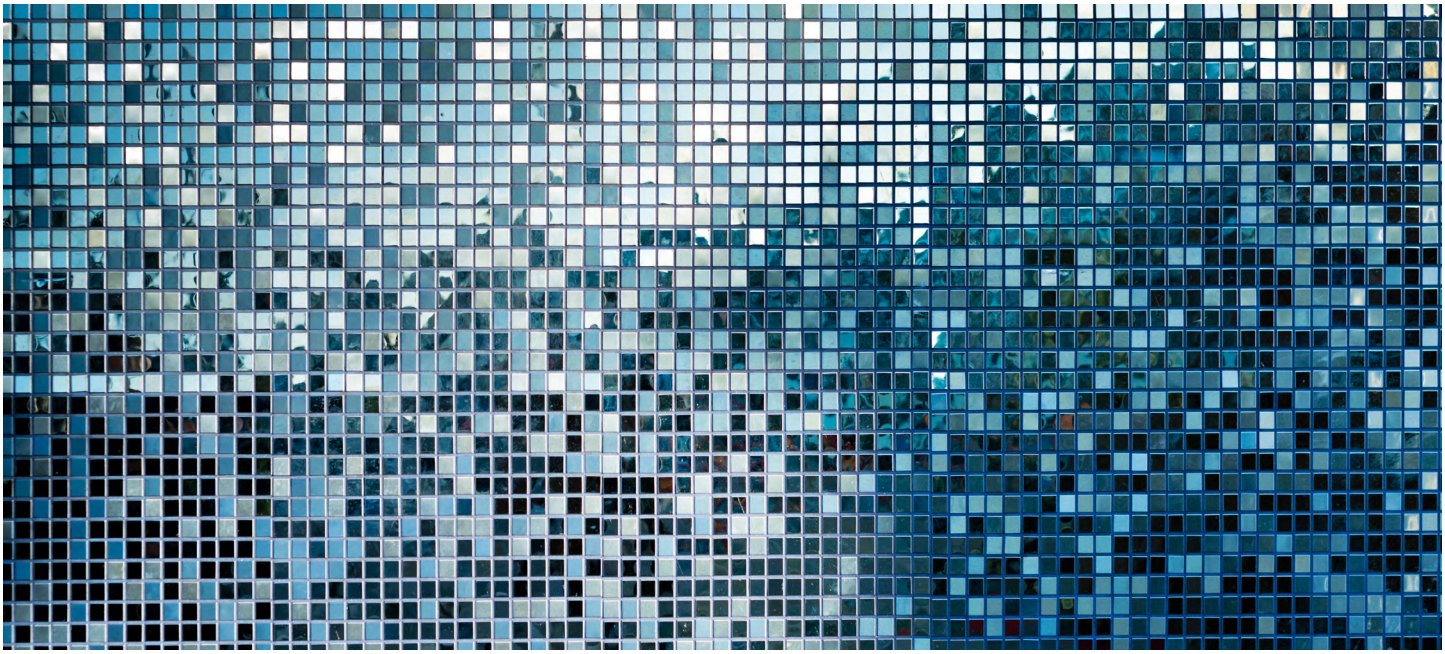


Source: Factset

As of December 31st 2024

These self-reinforcing political and corporate forces are aligning to rouse Japan from its low-growth torpor. These factors should be self-reinforcing, building momentum to turn Japan's macro tide through mild inflation, rising consumer spending, and improving corporate dynamism. Such an inflection point, unprecedented in a generation, bolsters the case for Japanese equities as a structural opportunity rather than a mere cyclical trade.

[2] ETF Perspectives, "Japan's corporate governance reform boosts shareholder value in 2025." | JP Morgan Asset Management, February 2025.

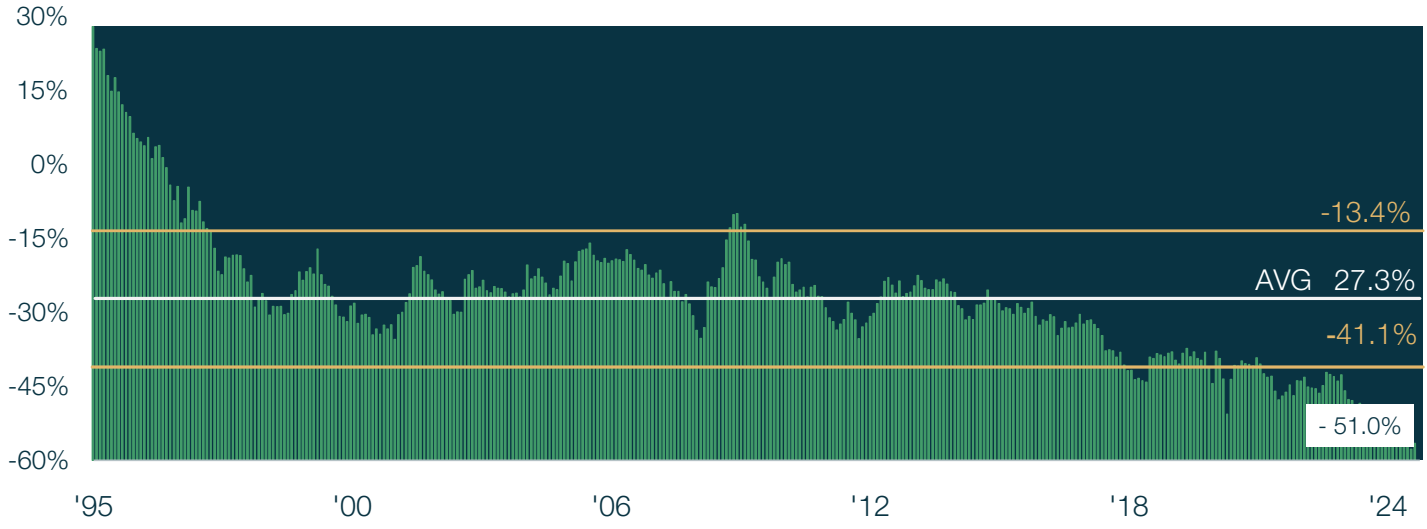


Historic Valuation Discounts

Beyond policy dynamics, compelling valuation is a worthy reason to lean into international equities today. Even after a period of market catch-up in early 2025, non-U.S. stocks remain significantly cheaper than U.S. stocks by most metrics. The MSCI EAFE Index trades near its widest valuation gap to the S&P 500 in 30 years. The International market's larger share of inexpensive financial stocks explains a portion of the discount. Yet, the valuation opportunity persists at the sector level: the EAFE tech sector trades at a 10% discount to the S&P 500 while over the past 20-years it has traded at an average premium of 10%.

Figure 3: Valuation Premium (%) MSCI EAFE/S&P 500

Average of P/E, P/B, & P/Div



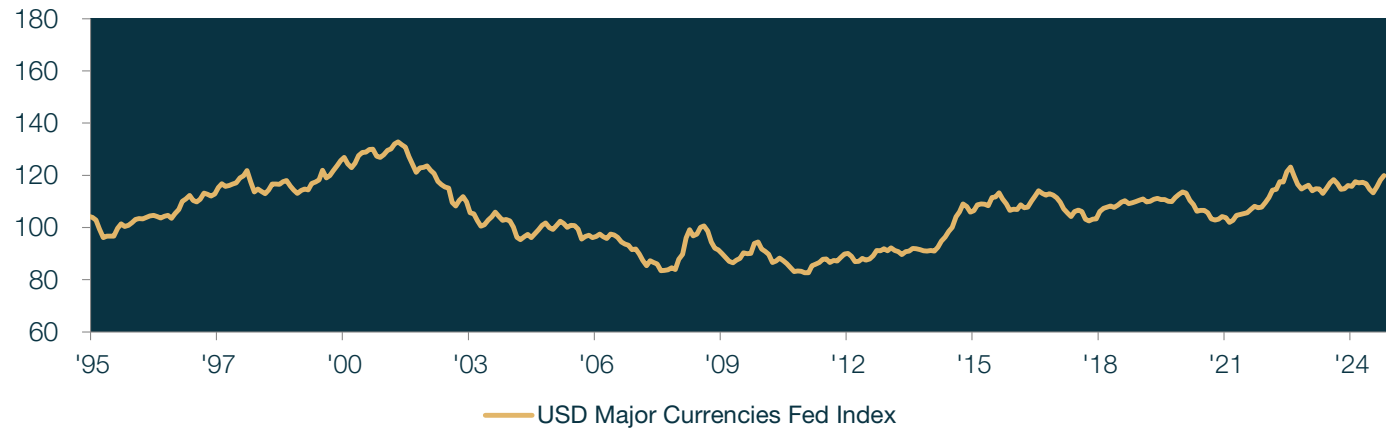
Source: Factset

Such a discount provides a margin of safety and considerable room for mean reversion. If global investors decide that European or Japanese blue-chip stocks deserve to be valued more like their American counterparts, multiple expansion could deliver outsized returns.

Currency Dynamics: A Potential Sweetener

Strengthening foreign currencies can amplify returns for a Dollar-based investor holding foreign stocks. Over the past decade, the strong Dollar acted as a persistent headwind for U.S. investors, **subtracting about 1% per year** from international equity returns. Europe's fiscal renaissance and Japan's corporate reforms are structural positives that can boost investor sentiment, while U.S. assets contend with policy uncertainty. The Trump administration's tariff campaign and isolationist rhetoric have prompted global investors to question the continued dominance of U.S. assets on the margin.

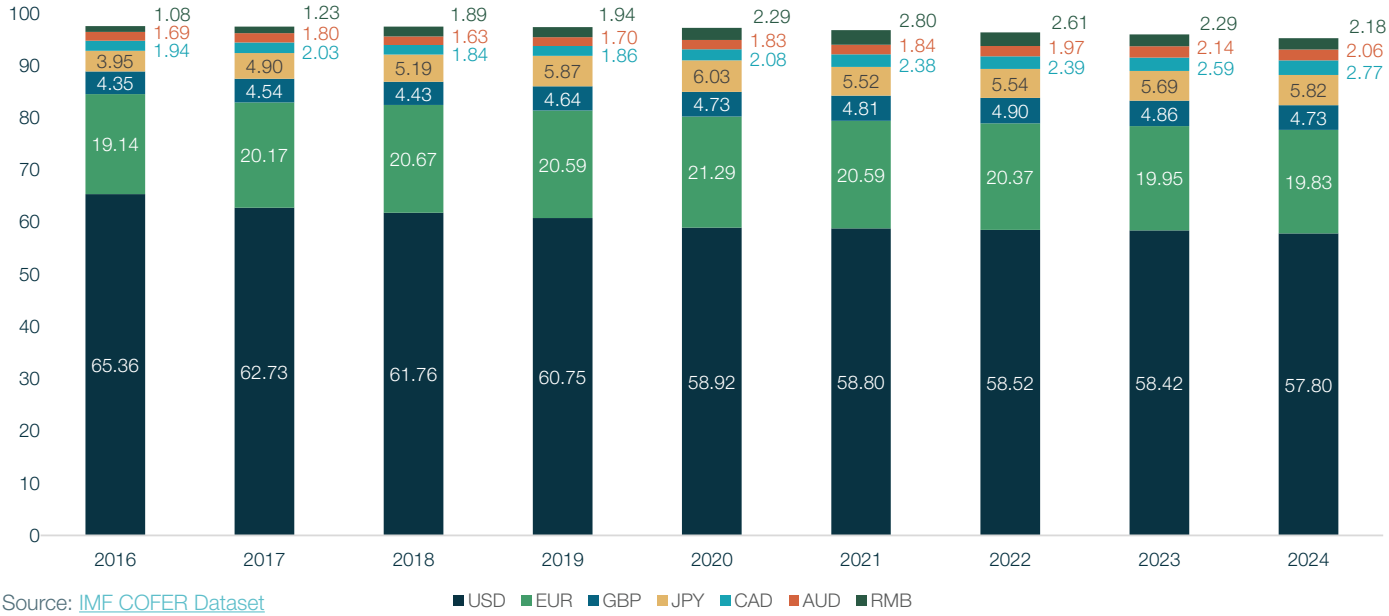
Figure 4. US Dollar Index



Source: Factset

Over the past decade, global central banks have been gradually diversifying away from the Dollar, which has fallen from 65% to ~58% of official foreign exchange reserves. While the Euro, the second largest reserve currency, has modestly increased its share, accounting for about 20%. The Japanese Yen, British Pound, and Australian Dollar have also increased their role. Given the recent geopolitical events, we expect this shift away from the Dollar will persist.

Figure 5. Currency Composition (%) of Official Foreign Exchange Reserves (COFER)



Source: IMF COFER Dataset

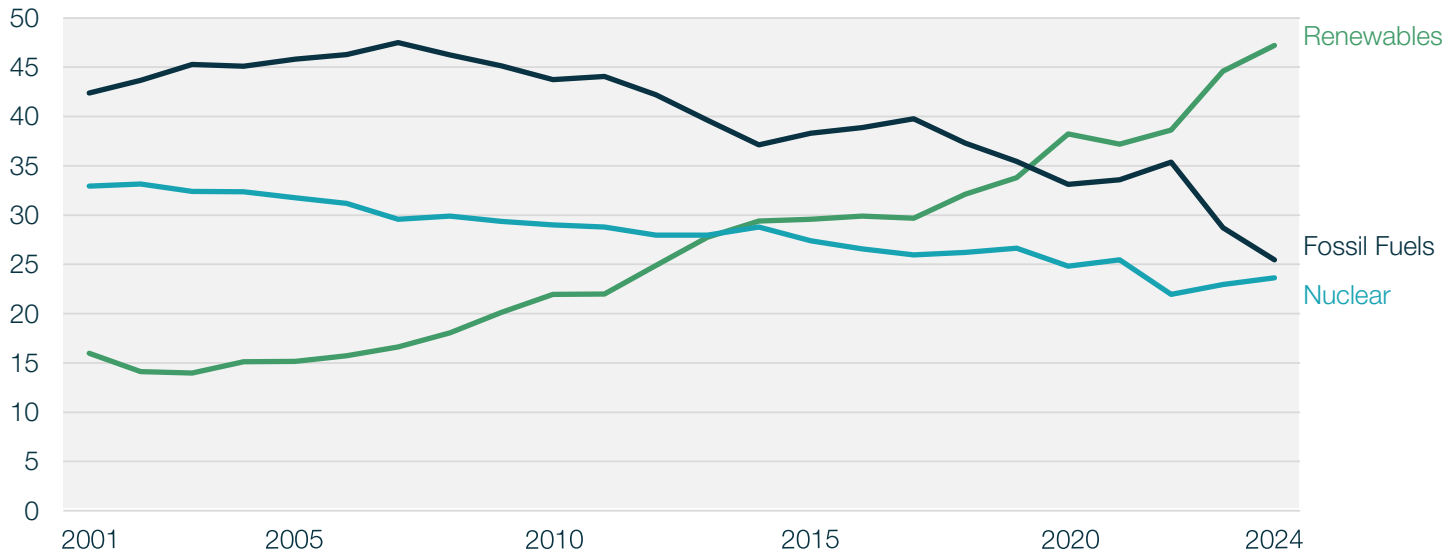
It is no coincidence that periods of pronounced Dollar weakness (such as the early 2000s) have coincided with international stocks outperforming U.S. stocks. With valuation on their side and the Dollar's safety premium ebbing, international equities seem positioned to benefit from a potential **double uplift**: higher multiples and favorable currency translation.

Secular Trends and Diversification = Global Growth Opportunities

Investing internationally is not merely a bet on mean reversion; it is also a way to access attractive markets and diversify geographic exposure in an era of realignments. Many compelling themes are developing beyond U.S. borders. Consider the global energy transition and the new industrial revolution around decarbonization. Europe, driven by climate goals and urgent energy-security needs, has committed to massive long-term investments in clean energy, grid infrastructure, and sustainable transport.

A record 47% of the European Union's electricity now comes from solar and other renewables, up from 30% ten years ago. At the same time, the continent is transitioning towards electric vehicles. Over the past five years, battery electric vehicles have nearly tripled their share to 15% of new car registrations in the European Union.[3] European companies, in particular, stand at the forefront of many technologies, including power management equipment and software, wind energy, and high-voltage cables.

Figure 6. Percent of Electricity Generated in the European Union



Source: Ember Energy

The above implies substantial tailwinds for firms enabling energy independence, many of which are based outside the U.S. (consider European electrical equipment makers, renewable project developers, and Japanese battery and automation companies). **An allocation to international equities is, in effect, an investment in the global race for sustainable energy and infrastructure**, which is being treated as a strategic priority from Brussels to Tokyo.

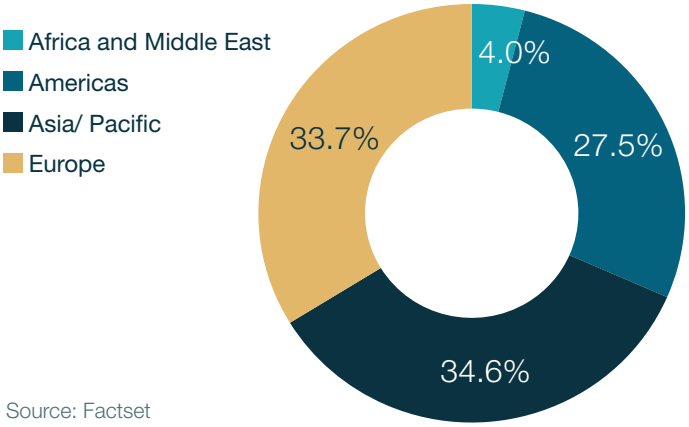
Investors seeking exposure to advanced industrial innovation may want to look to Japan, where acute labor shortages are spurring the adoption of robotics and labor-saving automation in everything from manufacturing to elder care. Notably, Japan is home to nearly half the world's high-end industrial robot suppliers and precision automation companies. For example, **Keyence** is a global leader in machine vision that enables modern factories to improve efficiency and productivity. These secular themes are slow-burning growth drivers that can compound over the years. Crucially, they often enjoy policy support in their home countries: Japan's government explicitly champions robotics and digital transformation as part of its economic revitalization.

International equities also provide diversification at a time when global tensions are high. It's worth recalling that economies do not move in lockstep; by holding a blend of U.S., European, and Asian stocks, one can benefit from offsetting cycles and policy responses. It is also important to consider exposure to Asia-Pacific outside of Japan. Australia has such an outstanding track record of nearly uninterrupted economic growth that it has been coined "the lucky country." With a dynamic population and vast natural resources, the country has leveraged its location to benefit from China's rise and become an economic power. At the same time, it has developed technology and healthcare companies that compete on the global stage. In a similar fashion, Singapore has benefited from its place as a stable hub in Southeast Asia.

[3] World Energy Investment 2024 | International Energy Agency, June 2024. (Via Guardian reporting by Jillian Ambrose).

Singapore has constructive relationships with both the US and China and looks poised to facilitate trade as a nexus between the two global powers. The country's long history of political stability has helped foster world-class institutional frameworks. We find Australian and Singaporean financial and telecom service providers to be key beneficiaries of these favorable structural conditions.

Figure 7. MSCI EAFE Revenue Exposure by Super-region



Source: Factset

Diversification is a time-honored principle but takes on renewed importance in a fragmented world order. The events of recent years—trade wars, Brexit, pandemics—remind us that concentrated bets on one country, even one's home country, can backfire unexpectedly. Investing internationally hedges against the possibility that the next decade's growth engine might lie outside the U.S. (for instance, a revitalized Europe riding a green-industrial boom, or India becoming a major consumer market). It also offers a buffer against idiosyncratic local shocks.

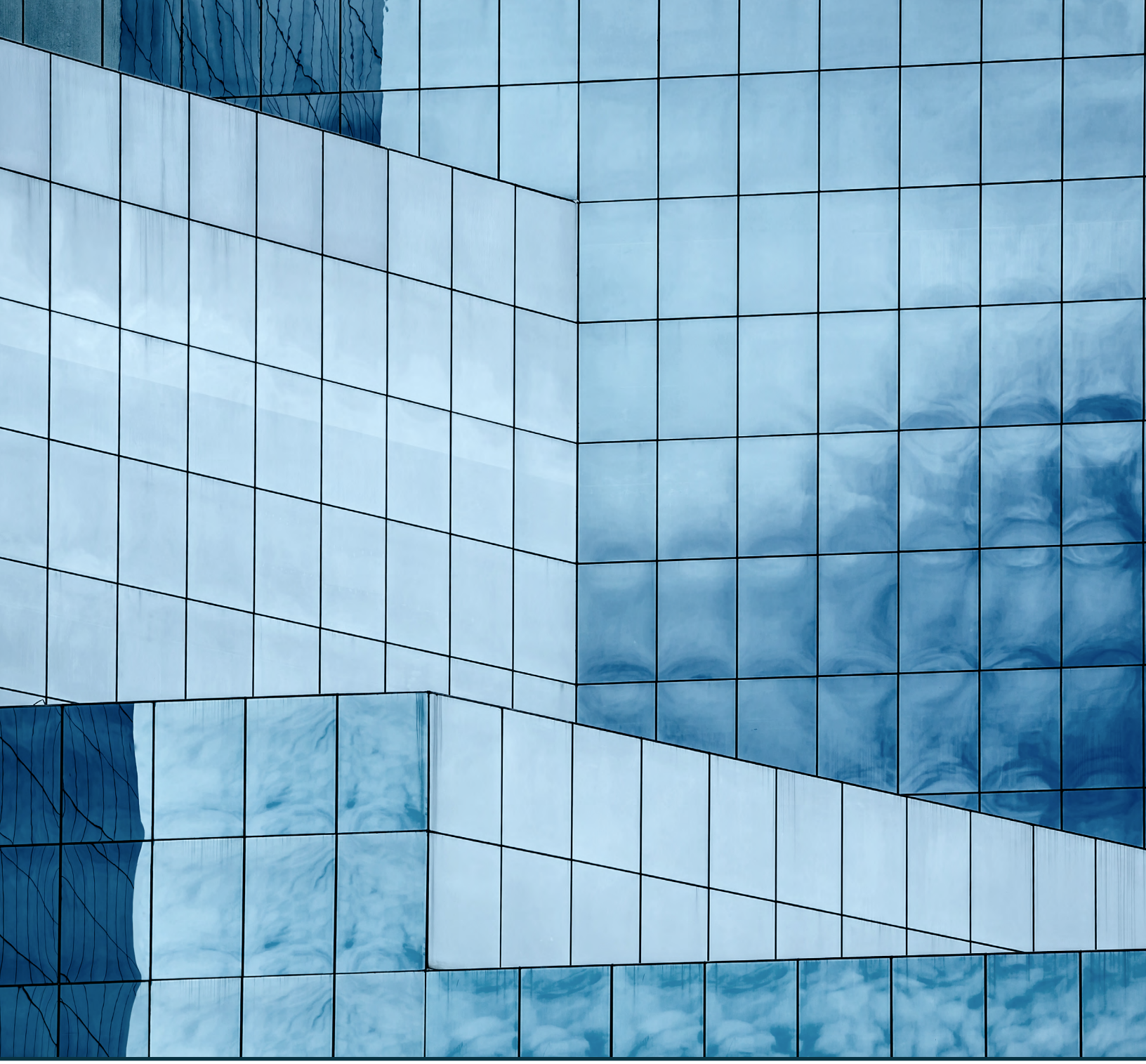
In practical terms, international equities offer more balanced participation in different facets of the global economy with higher weights in sectors like materials, industrials, health care, and financials compared to the U.S. market, which is heavily skewed towards technology and communications services. International corporations also have relatively large revenue contributions from the U.S., emerging markets, and other export geographies. As a result, we find that many European and Asian stocks can provide inexpensive exposure to attractive end markets. This means that by owning, say, a Swiss luxury goods maker or a French industrial supplier, an investor is indirectly tapping consumer growth in China and technology demand in the US. These international companies often trade at substantial discounts to local competitors.

Here, **the breadth of themes is striking**: European markets give investors access to the green energy transition (via utilities and equipment makers), advanced healthcare and pharmaceuticals, and even the luxury boom driven by affluent consumers in the U.S. and China. Japanese and other Asian developed markets offer leadership in automation, high-end manufacturing, and semiconductors.

In short, international equities are a portal to underrepresented opportunities that complement the U.S. market's tech-centric profile.

International Equities: An Evergreen Opportunity

International markets face risks from demographics to lagging technological development, factors that have weighed on historical performance. In the future, however, the strategic case for international equities rests on a confluence of enduring factors. We are witnessing macro realignments—Europe abandoning austerity and Japan escaping deflation—that could underpin years of improved corporate performance across those markets. We see relative valuations that are not just a few points apart, but oceans apart, in a way that history suggests is unsustainable in the long run. We see potential turning points in currency trends that, if realized, will reward those positioned in non-Dollar assets. And we recognize secular growth drivers from climate action to automation, supported by deliberate industrial policies and long-range national strategies. None of these elements is fleeting. Rather, they form an evergreen rationale for maintaining international equities, not as a mere episodic trade, but as a core allocation.



About Boston Common Asset Management

Boston Common Asset Management (BCAM) is a majority women- and employee-owned sustainable investor. An active manager of diversified equity portfolios, BCAM integrates traditional and unconventional financial and risk information sources to identify high-quality investment opportunities that offer long-term return potential and enhanced risk mitigation. The firm has been a global leader in shareholder stewardship and engagement since its 2003 inception. Headquartered in Boston, BCAM's investment strategies totaled $4.4 billion in AUM and AUA as of March 31, 2025.

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